
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2018**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 001-36790

PRECISION THERAPEUTICS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

33-1007393
(IRS Employer
Identification No.)

2915 Commers Drive, Suite 900
Eagan, Minnesota 55121
(Address and Zip Code of principal executive offices)

(Registrant's telephone number, including area code): **(651) 389-4800**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock par value \$0.01 per share

NASDAQ Capital Market

Securities registered under Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosures of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No .

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrants most recently completed second fiscal quarter: \$13,584,316.47 as of June 30, 2018, based upon 12,089,446 shares at \$1.13 per share as reported on NASDAQ Capital Market.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the last practicable date: As of March 26, 2019, the registrant had 15,792,586 shares of common stock, par value \$.01 per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

EXPLANATORY NOTE

Precision Therapeutics Inc. is filing this Form 10-K/A (Amendment No. 1) to our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission on April 1, 2019. This amendment modifies Item 8 for the purpose of including the report of the Registrant's former auditor, Olsen Thielen & Co., on the financial statements for the year ended December 31, 2017, which was inadvertently omitted from Item 8. Such Olsen report on the 2017 financial statements is identical to the Olsen report that was filed on April 2, 2018 with the Registrant's Form 10-K for the year ended December 31, 2017, except that the version of such report to be included in the 2018 10-K is dated as of a later date (April 1, 2019) as to Note 12. This Amendment No. 1 also reflect exhibits filed with this Amendment No. 1.

Except as described above, this Form 10-K/A does not modify or update other disclosures in the Form 10-K, including the nature and character of such disclosure to reflect events occurring after the filing date of the original Form 10-K. The filing of this Form 10-K/A is not an admission that the original 10-K, when filed, was not complete.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our financial statements and supplementary data are included on pages F-1 to F-28 of this report.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

The following exhibits and financial statements are filed as part of, or are incorporated by reference into, this report:

(1) Financial Statements

The following financial statements are filed with this Annual Report and can be found beginning at page F-1 of this report:

- Report of Independent Registered Public Accounting Firm dated April 1, 2019;
- Report of Independent Registered Public Accounting Firm dated April 2, 2018 (except for Note 12 as to which the date is April 1, 2019);
- Balance Sheets as of December 31, 2018 and December 31, 2017;
- Statements of Comprehensive Income for the Years Ended December 31, 2018 and December 31, 2017;
- Statements of Stockholders' Equity (Deficit) from December 31, 2016 to December 31, 2018;
- Statements of Cash Flows for the Years Ended December 31, 2018 and December 31, 2017; and
- Notes to Financial Statements.

(2) Financial Statement Schedules

All schedules have been omitted because the information required to be shown in the schedules is not applicable or is included elsewhere in the financial statements and Notes to Financial Statements.

(3) Exhibits

See “Exhibit Index” following the signature page of this Form 10-K/A for a description of the documents that are filed as Exhibits to this Annual Report on Form 10-K or incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to Annual Report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 2, 2019

Precision Therapeutics Inc.

By /s/ Bob Myers
Bob Myers
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this amendment has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	
<u>/s/ Carl Schwartz</u> Carl Schwartz	Chief Executive Officer and Director (principal executive officer)	April 2, 2019
<u>/s/ Bob Myers</u> Bob Myers	Chief Financial Officer (principal financial and accounting officer)	April 2, 2019

EXHIBIT INDEX
PRECISION THERAPEUTICS INC.
FORM 10-K/A – AMENDMENT NO. 1

Exhibit Number	Description
1.1	Placement Agency Agreement with Dawson James Securities, Inc. dated February 27, 2019 (47) Exhibit 1.1
2.1	Agreement and Plan of Merger, dated December 16, 2013, between Skyline Medical Inc., a Minnesota corporation, and the registrant (1) Exhibit 2.1
2.2	Amended and Restated Agreement and Plan of Merger dated October 22, 2018 (38) Exhibit 2.2
3.1	Certificate of Incorporation (1) Exhibit 3.1
3.2	Certificate of Amendment to Certificate of Incorporation to effect reverse stock split and reduction in authorized share capital filed with the Delaware Secretary of State on October 20, 2014 (19) Exhibit 3.2
3.3	Certificate of Amendment to Certificate of Incorporation regarding increase in share capital, filed with the Delaware Secretary of State on July 24, 2015 (20) Exhibit 3.3
3.4	Certificate of Amendment to Certificate of Incorporation to increase authorized share capital, filed with the Delaware Secretary of State on September 16, 2016 (27) Exhibit 3.4
3.5	Certificate of Amendment to Certificate of Incorporation to effect reverse stock split and reduction in authorized share capital, fled with the Delaware Secretary of State on October 26, 2016 (28) Exhibit 3.5
3.6	Certificate of Amendment to Certificate of Incorporation regarding increase in share capital, filed with the Delaware Secretary of State on January 26, 2017 (29) Exhibit 3.6
3.7	Certificate of Amendment to Certificate of Incorporation to effect reverse stock split, filed with the Delaware Secretary of State on January 2, 2018 (41) Exhibit 3.7
3.8	Certificate of Amendment to Certificate of Incorporation to effect name change, filed with the Delaware Secretary of State on February 1, 2018 (21) Exhibit 3.8
3.9	Certificate of Amendment to Certificate of Incorporation to increase authorized share capital and establish a classified Board of Directors (44) Exhibit 3.9
3.10	Amended and Restated Bylaws (21) Exhibit 3.10
3.11	First Amendment to Amended and Restated Bylaws (44) Exhibit 3.11
3.12	Form of Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock (22) Exhibit 3.12
3.13	Certificate of Designation of Preferences, Rights and Limitations of Series C Convertible Preferred Stock (40) Exhibit 3.13

- 4.1 Form of Warrant (2) [Exhibit 4.1](#)
- 4.2 Form of Warrant (7) [Exhibit 4.2](#)
- 4.3 Form of Warrant (11) [Exhibit 4.3](#)
- 4.4 Form of Warrant (15) [Exhibit 4.4](#)
- 4.5 Form of Warrant (16) [Exhibit 4.5](#)
- 4.6 Amended and Restated 2012 Stock Incentive Plan (3)** [Exhibit 4.6](#)
- 4.7 Form of Senior Convertible Note (23) [Exhibit 4.7](#)
- 4.8 Form of Warrant issued to investors of Convertible Notes (23) [Exhibit 4.8](#)
- 4.9 Form of Registration Rights Agreement (23) [Exhibit 4.9](#)
- 4.10 Form Waiver and Consent of, and Notice to, Holder of Preferred Stock of the registrant (23) [Exhibit 4.10](#)
- 4.11 Form of Series A Warrant Agency Agreement by and between Skyline Medical Inc. and Corporate Stock Transfer, Inc. and Form of Warrant Certificate (24) [Exhibit 4.11](#)
- 4.12 Form of Series A Warrant Certificate (included as part of Exhibit 4.11) (24) [Exhibit 4.12](#)
- 4.13 Form of unit Purchase Option issued in connection with offering of Units (25) [Exhibit 4.13](#)
- 4.14 Form of Exchange Agreement with holders of Series A Preferred Stock (26) [Exhibit 4.14](#)
- 4.15 Form of Amendment to Senior Convertible Notes and Agreement by and between Skyline Medical Inc. and Senior Convertible Notes (26) [Exhibit 4.15](#)
- 4.16 Form of specimen certificate evidencing shares of Series B Convertible Preferred Stock (25) [Exhibit 4.16](#)
- 4.17 Form of Unit Agreement (including form of Unit Certificate) (24) [Exhibit 4.17](#)
- 4.18 Form of New Warrant Agency Agreement by and between Skyline Medical Inc. and Form of Warrant Certificate for Series B Warrant (30) [Exhibit 4.18](#)
- 4.19 Form of Series B Warrant Certificate (included as part of Exhibit 4.18) [Exhibit 4.19](#)
- 4.20 Form of Series C Warrant (33) [Exhibit 4.20](#)
- 4.21 Form of Unit Purchase Option (33) [Exhibit 4.21](#)
- 4.22 Form of Series D Warrant Agency Agreement by and between Skyline Medical Inc. and Corporate Stock Transfer, Inc. and Form of Series D Warrant Certificate (34) [Exhibit 4.22](#)
- 4.23 Form of Series D Warrant Certificate (included as part of Exhibit 4.22) [Exhibit 4.23](#)
- 4.24 Form of Amendment to Warrant (21) [Exhibit 4.24](#)

- 4.25 Investor Warrant (40) [Exhibit 4.25](#)
- 4.26 Series E Warrant Agency Agreement by and between Skyline Medical Inc. and Corporate Stock Transfer, Inc. dated January 9, 2018 (42) [Exhibit 4.26](#)
- 4.27 Form of Series E Warrant Certificate (42) [Exhibit 4.27](#)
- 4.28 Common Stock Purchase Warrant issued to L2 Capital, LLC dated September 28, 2018 (44) [Exhibit 4.28](#)
- 4.29 Common Stock Purchase Warrant issued to Peak One Opportunity Fund, LP dated September 28, 2018 (44) [Exhibit 4.29](#)
- 4.30 Second Amended and Restated Common Stock Purchase Warrant issued to Carl Schwartz dated February 6, 2019 (46) [Exhibit 4.30](#)
- 4.31 Form of Warrant (47) [Exhibit 4.31](#)
- 4.32 Form of Unit Purchase Option (47) [Exhibit 4.32](#)
- 4.33 Common Stock Purchase Warrant issued to Carl Schwartz dated November 30, 2018 (48) [Exhibit 4.33](#)
- 4.34 Amended and Restated Common Stock Purchase Warrant issued to Carl Schwartz dated January 8, 2019 (49) [Exhibit 4.34](#)
- 10.1 Form of Securities Purchase Agreement, dated as of February 4, 2014, by and among the Company and certain Purchasers (2) [Exhibit 10.1](#)
- 10.2 Settlement Agreement and Mutual General Release dated September 18, 2013, entered into by and among Kevin Davidson, Skyline Medical Inc., Atlantic Partners Alliance, LLC, SOK Partners, LLC, Joshua Kornberg and Dr. Samuel Herschkowitz (4) [Exhibit 10.2](#)
- 10.3 Amended and Restated Executive Employment Agreement with Joshua Kornberg, signed on June 17, 2013 and effective March 14, 2013 (6)** [Exhibit 10.3](#)
- 10.4 BioDrain Medical, Inc., 2012 Stock Incentive Plan Restricted Stock Award Agreement with Joshua Kornberg, signed on June 17, 2013 and effective March 14, 2013 (6)** [Exhibit 10.4](#)
- 10.5 Form of Convertible Promissory Note (7) [Exhibit 10.5](#)
- 10.6 Promissory Note in the Principal amount of \$100,000 in favor of Brookline Group, LLC, dated as of March 8, 2013 (9) [Exhibit 10.6](#)
- 10.7 Form of Securities Purchase Agreement (11) [Exhibit 10.7](#)
- 10.8 Office Lease Agreement between the registrant and Roseville Properties Management Company, as agent for Lexington Business Park, LLC (12) [Exhibit 10.8](#)
- 10.9 Form of Non-Qualified Stock Option Agreement under the 2012 Stock Incentive Plan (13)** [Exhibit 10.9](#)
- 10.10 Employment Agreement with Josh Kornberg dated July 24, 2012 (13)** [Exhibit 10.10](#)
- 10.11 Non-Qualified Stock Option Agreement with Josh Kornberg dated August 13, 2012 (13)** [Exhibit 10.11](#)

- 10.12 Employment Agreement with Robert Myers dated August 11, 2012 (13)** [Exhibit 10.12](#)
- 10.13 Employment Agreement with David Johnson dated August 11, 2012 (13)** [Exhibit 10.13](#)
- 10.14 Settlement Agreement and Mutual General Release with Kevin Davidson effective October 11, 2012 (13)** [Exhibit 10.14](#)
- 10.15 Note Purchase Agreement, dated as of November 6, 2012, between Dr. Samuel Herschkowitz and BioDrain Medical, Inc. (14) [Exhibit 10.15](#)
- 10.16 Note Purchase Agreement, dated as of November 6, 2012, between Dr. Samuel Herschkowitz and BioDrain Medical, Inc. (14) [Exhibit 10.16](#)
- 10.17 Note Purchase Agreement, dated as of November 6, 2012, between Dr. Samuel Herschkowitz and BioDrain Medical, Inc. (14) [Exhibit 10.17](#)
- 10.18 Note Purchase Agreement, dated as of November 6, 2012, between Dr. Samuel Herschkowitz and BioDrain Medical, Inc. (14) [Exhibit 10.18](#)
- 10.19 Amended Lease with Roseville Properties Management Company, Inc. dated January 29, 2013 (14) [Exhibit 10.19](#)
- 10.20 Form of Convertible Promissory Note (15) [Exhibit 10.20](#)
- 10.21 Forbearance and Settlement Agreement among the registrant, Dr. Samuel Herschkowitz and SOK Partners, LLC dated August 15, 2012 (13) [Exhibit 10.21](#)
- 10.22 Form of Securities Purchase Agreement (16) [Exhibit 10.22](#)
- 10.23 Convertible Note Purchase Agreement between the Company and SOK Partners, LLC dated March 28, 2012, including the form of Convertible Promissory Grid Note (18) [Exhibit 10.23](#)
- 10.24 Amended and Restated Note Purchase Agreement between the Company and Dr. Samuel Herschkowitz dated as of December 20, 2011, including the form of Convertible Promissory Note (issued in the amount of \$240,000) (18) [Exhibit 10.24](#)
- 10.25 Letter Agreement, dated August 22, 2013, among Dr. Samuel Herschkowitz, SOK Partners, LLC and Skyline Medical Inc. (5) [Exhibit 10.25](#)
- 10.26 Letter Agreement, dated April 25, 2013, among Dr. Samuel Herschkowitz, SOK Partners, LLC and BioDrain Medical, Inc. (8) [Exhibit 10.26](#)
- 10.27 Letter Agreement, dated March 14, 2013, among Dr. Samuel Herschkowitz, SOK Partners, LLC and BioDrain Medical, Inc. (10) [Exhibit 10.27](#)
- 10.28 Form of Securities Purchase Agreement with investors in Convertible Notes (23) [Exhibit 10.28](#)
- 10.29 Separation Agreement and Release between Skyline Medical Inc. and Joshua Komberg, dated June 13, 2016 (31) [Exhibit 10.29](#)
- 10.30 Amended and Restated 2012 Stock Incentive Plan (45) [Exhibit 10.30](#)
- 10.31 Form of Common Stock Purchase Agreement (33) [Exhibit 10.31](#)
- 10.32 Form of Stock Option Agreement effective as of July 1, 2016 (36) [Exhibit 10.32](#)

- 10.33 Form of Stock Option Agreement for Executive Officers (39) [Exhibit 10.33](#)
- 10.34 Form of Stock Option Agreement for Directors (39) [Exhibit 10.34](#)
- 10.35 Securities Purchase Agreement dated November 28, 2017 (40) [Exhibit 10.35](#)
- 10.36 Registration Rights Agreement dated November 28, 2017 (40) [Exhibit 10.36](#)
- 10.37 Share Exchange Agreement between Skyline Medical Inc. and Helomics Holding Corporation, dated January 11, 2018, including the form of Certificate of Designation of Helomics Series A Preferred Stock and the form of Escrow Agreement (43) [Exhibit 10.37](#)
- 10.38 Securities Purchase Agreement by and between the Company and L2 Capital, LLC dated September 28, 2018 (44) [Exhibit 10.38](#)
- 10.39 Senior Secured Promissory Note issued to L2 Capital, LLC dated September 28, 2018 (44) [Exhibit 10.39](#)
- 10.40 Registration Rights Agreement by and between the Company and L2 Capital, LLC dated September 28, 2018 (44) [Exhibit 10.40](#)
- 10.41 Security Agreement by and between the Company and L2 Capital, LLC dated September 28, 2018 (44) [Exhibit 10.41](#)
- 10.42 Securities Purchase Agreement by and between the Company and Peak One Opportunity Fund, LP dated September 28, 2018 (44) [Exhibit 10.42](#)
- 10.43 Senior Secured Promissory Note issued to Peak One Opportunity Fund, LP dated September 28, 2018 (44) [Exhibit 10.43](#)
- 10.44 Registration Rights Agreement by and between the Company and Peak One Opportunity Fund, LP dated September 28, 2018 (44) [Exhibit 10.44](#)
- 10.45 Security Agreement by and between the Company and Peak One Opportunity Fund, LP dated September 28, 2018 (44) [Exhibit 10.45](#)

- 10.46 Amended and Restated Promissory Note issued to Carl Schwartz dated February 6, 2019 (46) [Exhibit 10.46](#)
- 10.47 Forbearance Agreement by and between L2 Capital, LLC and the Company dated February 7, 2019 (46) [Exhibit 10.47](#)
- 10.48 Forbearance Agreement by and between Peak One Opportunity Fund, LP and the Company dated February 7, 2019 (46) [Exhibit 10.48](#)
- 10.49 Amended and Restated Promissory Note issued to L2 Capital, LLC dated February 7, 2019 (46) [Exhibit 10.49](#)
- 10.50 Amended and Restated Promissory Note issued to Peak One Opportunity Fund, LP dated February 7, 2019 (46) [Exhibit 10.50](#)
- 10.51 Promissory Note issued to Carl Schwartz dated November 30, 2018 (48) [Exhibit 10.51](#)
- 10.52 Amended and Restated Promissory Note issued to Carl Schwartz dated January 8, 2019 (49) [Exhibit 10.52](#)
- 10.53 Subscription Agreement by and between Carl Schwartz and the Company dated January 8, 2019 (49) [Exhibit 10.53](#)
- 10.54 Employment Agreement by and between Carl Schwartz and Issuer dated November 10, 2017 (50)** [Exhibit 10.54](#)
- 10.55 Amendment to Employment Agreement by and between the Issuer and Carl Schwartz dated August 20, 2018 (50)** [Exhibit 10.55](#)
- 10.56*** Amendment to Employment Agreement by and between the Issuer and Bob Myers dated August 20, 2018** [Exhibit 10.56](#)
- 14.1 Code of Ethics (17) [Exhibit 14.1](#)
- 23.1*** Consent of Independent Registered Public Accounting Firm: Deloitte & Touche LLP [Exhibit 23.1](#)
- [23.2*](#) [Consent of Independent Registered Public Accounting Firm: Olsen Thielen & Co., Ltd.](#)
- [31.1*](#) [Certification of principal executive officer required by Rule 13a-14\(a\)](#)
- [31.2*](#) [Certification of principal financial officer required by Rule 13a-14\(a\)](#)
- [32.1*](#) [Section 1350 Certification](#)
- 99.1 Binding Letter of Intent with CytoBioscience, Inc. dated July 21, 2017 (37) [Exhibit 99.1](#)
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.

**Compensatory Plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

*** Filed previously with Form 10-K.

- (1) Filed on December 19, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (2) Filed on February 5, 2014 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (3) Filed on August 27, 2013 as an exhibit to our Proxy Statement on Schedule 14A and incorporated herein by reference.
- (4) Filed on November 14, 2013 as an exhibit to our Quarterly Report on Form 10-Q and incorporated herein by reference.
- (5) Filed on August 28, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (6) Filed on June 18, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (7) Filed on June 12, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (8) Filed on May 1, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (9) Filed on March 14, 2013 as an exhibit to our Current report on Form 8-K and incorporated herein by reference.
- (10) Filed on March 12, 2013 as an exhibit to our Current Report on Form 8-K (by incorporation by reference from the Schedule 13D/A filed by Dr. Herschkowitz and other parties on March 8, 2013) and incorporated herein by reference.

- (11) Filed on February 26, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (12) Filed on November 12, 2008 as an exhibit to our Registration Statement on Form S-1 and incorporated herein by reference.
- (13) Filed on November 5, 2012 as an exhibit to our Registration Statement on Form S-1 and incorporated herein by reference.
- (14) Filed on February 8, 2013 as an exhibit to our Registration Statement on Form S-1 (except for Exhibit 10.19, by incorporation by reference from the Schedule 13D/A filed by Dr. Herschkowitz and other parties on November 8, 2012) and incorporated herein by reference.
- (15) Filed on January 15, 2013 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (16) Filed on June 21, 2012 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (17) Filed on April 16, 2012 as an exhibit to our Annual Report on Form 10-K and incorporated herein by reference.
- (18) Filed on April 3, 2012 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (19) Filed on October 24, 2014 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (20) Filed on June 30, 2015 as an appendix to our Information Statement on Schedule 14C and incorporated herein by reference.
- (21) Filed on February 6, 2018 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (22) Filed on August 20, 2015 as an exhibit to our Registration Statement on Form S-1 (File No. 333-198962) and incorporated herein by reference.
- (23) Filed on July 24, 2014 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (24) Filed on August 20, 2015 as an exhibit to our Registration Statement on Form S-1 (File No. 333-198962) and incorporated herein by reference.
- (25) Filed on August 10, 2015 as an exhibit to our Registration Statement on Form S-1 (File No. 333-198962) and incorporated herein by reference.
- (26) Filed on July 24, 2015 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (27) Filed on September 16, 2016 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.

- (28) Filed on October 27, 2016 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (29) Filed on January 27, 2017 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (30) Filed on March 25, 2016 as an exhibit to our Registration Statement on Form S-4 (File No. 333-210398) and incorporated herein by reference.
- (31) Filed on June 17, 2016 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (32) Filed on December 4, 2017 as an exhibit to our Proxy Statement on Schedule 14A and incorporated herein by reference.
- (33) Filed on November 30, 2016 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (34) Filed on January 10, 2017 as an exhibit to our Registration Statement on Form S-1 (File No. 333-215005) and incorporated herein by reference.
- (35) [Reserved]
- (36) Filed on March 15, 2017 as an exhibit to our Registration Statement on Form S-8 and incorporated herein by reference.
- (37) Filed on August 2, 2017 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (38) Filed on October 30, 2018 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (39) Filed on August 14, 2017 as an exhibit to our Quarterly Report on Form 10-Q and incorporated herein by reference.
- (40) Filed on November 29, 2017 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (41) Filed on January 2, 2018 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (42) Filed on January 10, 2018 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (43) Filed on January 16, 2018 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (44) Filed on October 4, 2018 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (45) Filed on March 22, 2019 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (46) Filed on February 12, 2019 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (47) Filed on March 1, 2019 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (48) Filed on December 7, 2018 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (49) Filed on January 14, 2019 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.
- (50) Filed on January 25, 2019 as an exhibit to the Schedule 13D report filed by Carl Schwartz and incorporated herein by reference.

The audited financial statements for the periods ended December 31, 2018 and December 31, 2017 are included on the following pages:

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Financial Statements:	
Report of Independent Registered Public Accounting Firm	F-1
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Precision Therapeutics Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Precision Therapeutics Inc. (the "Company") as of December 31, 2018, the related consolidated statements of comprehensive loss, stockholders' equity, and cash flows, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company does not expect to generate sufficient operating cashflows to sustain its operations in the near-term, and needs to raise significant additional capital to meet its operating needs, and pay debt obligations coming due, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinion.

Minneapolis, Minnesota
April 1, 2019
We have served as the Company's auditor since 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and stockholders of
Precision Therapeutics Inc., f/k/a Skyline Medical, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Precision Therapeutics, Inc. f/k/a Skyline Medical, Inc. (the Company) as of December 31, 2017 and 2016 and the related statements of comprehensive income (loss), stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter - Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred losses since inception, has an accumulated deficit and has not yet received significant revenue from sales of products or services. These factors raise substantial doubt about its (the Company's) ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Roseville, Minnesota
April 2, 2018, except for Note 12 as to
which the date is April 1, 2019



We have served as the Company's auditor since 2002.

**PRECISION THERAPEUTICS INC.
CONSOLIDATED BALANCE SHEETS**

	December 31, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash & cash equivalents	\$ 162,152	\$ 766,189
Certificates of deposit	-	244,971
Accounts Receivable	232,602	137,499
Notes Receivable (inclusive of \$452,775 in advances to Helomics)	497,276	667,512
Inventories	241,066	265,045
Prepaid Expense and other assets	318,431	289,966
Total Current Assets	1,451,527	2,371,182
Notes Receivable	1,112,524	1,070,000
Fixed Assets, net	180,453	87,716
Intangibles, net	964,495	95,356
Total Assets	\$ 3,708,999	\$ 3,624,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 445,689	\$ 140,462
Notes Payable – Bridge Loan Net of Discount	1,327,942	-
Notes Payable – Net of Discount	306,972	-
Accrued Expenses	1,279,114	785,215
Derivative Liability	272,745	-
Deferred Revenue	23,065	6,663
Total Current Liabilities	3,655,527	932,340
Total Liabilities	3,655,527	932,340
Stockholders' Equity:		
Series B Convertible Preferred Stock, \$.01 par value, 20,000,000 authorized, 79,246 and 79,246 outstanding	792	792
Series C Convertible Preferred Stock, \$.01 par value, 20,000,000 authorized, 0 and 647,819 outstanding	-	6,479
Common Stock, \$.01 par value, 50,000,000 authorized, 14,091,748 and 6,943,283 outstanding	140,917	69,432
Additional paid-in capital	63,019,708	55,636,680
Accumulated deficit	(63,107,945)	(53,021,469)
Total Stockholders' Equity	53,472	2,691,914
Total Liabilities and Stockholders' Equity	\$ 3,708,999	\$ 3,624,254

See Notes to Consolidated Financial Statements

PRECISION THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31,	
	2018	2017
Revenue	\$ 1,411,655	\$ 654,836
Cost of goods sold	415,764	148,045
Gross margin	995,891	506,791
General and administrative expense	4,626,997	4,050,307
Operations expense	1,861,121	1,414,774
Sales and marketing expense	2,369,152	1,095,232
Total operating loss	7,861,379	6,053,523
Other income	510,254	53,734
Other expense	441,772	3,228
Loss on equity method investment	(2,293,580)	-
Net loss available to common shareholders	<u>\$ (10,086,477)</u>	<u>\$ (6,003,017)</u>
Loss per common share - basic and diluted	\$ (0.79)	\$ (0.94)
Weighted average shares used in computation - basic and diluted	12,816,289	6,362,989

See Notes to Consolidated Financial Statements

PRECISION THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED
DECEMBER 31, 2018 and 2017

	Common Stock					Paid- in Capital	Deficit	Other Comprehensive Income	Total
	Preferred Stock	# Shares Preferred C	# Shares Preferred B	Shares	Amount				
Balance at 12/31/2016	\$ 792	-	79,246	4,564,428	\$ 45,644	\$47,894,196	\$(47,018,451)	\$ 1,501	\$ 923,682
Shares issued pursuant to the public offering, net				1,750,000	17,500	3,403,688			3,421,188
Shares issued pursuant to the overallotment agreement in the public offering				175,000	1,750	392,000			393,750
Vesting Expense						2,298,680			2,298,680
Reverse shares issued for escrow with GLG Pharma pursuant to the termination agreement				(400,000)	(4,000)				(4,000)
Shares issued pursuant to consulting agreement				100,000	1,000	219,000			220,000
Unrealized (loss) from marketable securities							(1)	(1,501)	(1,501)
Shares issued pursuant to consulting agreement				43,333	433	63,699			64,132
Shares issued at \$1.58 per share to an investor relations consultant				50,000	500	78,500			79,000
Shares issued pursuant to a private placement	12,138	1,213,819				1,201,681			1,213,819
Preferred conversion to common shares pursuant to a private placement agreement	(5,659)	(566,000)		660,522	6,604	85,236			86,182
Net loss							(6,003,017)		(6,003,017)
Balance at 12/31/2017	\$ 7,271	647,819	79,246	6,943,283	\$ 69,432	\$55,636,680	\$(53,021,469)	\$ -	\$ 2,691,914
Preferred conversion to common shares pursuant to private placement agreement	(6,479)	(647,819)		589,747	5,897	582			-
Shares issued pursuant to S-3 public offering				2,900,000	29,000	2,726,087			2,755,087
Investment in Subsidiary pursuant to Helomics 20% acquisition				1,100,000	11,000	1,031,250			1,042,250
E Warrant exercises pursuant to S-3 public offering at \$1.00 exercise price per share				145,396	1,454	143,942			145,396
Shares issued pursuant to S-3 public offering over-allotment option at \$0.9497 exercise price per share				215,247	2,153	202,268	1		204,422
Re-priced warrant exercise pursuant to 2016 private investment				504,666	5,046	499,619			504,665
Shares issued pursuant to a consultant contract @ \$1.18 per share				150,000	1,500	175,500			177,000
Shares issued pursuant to a consultant contract @ \$1.18 per share				100,000	1,000	117,000			118,000
Shares issued in escrow pursuant to a contract with TumorGenesis @ \$1.17 per share				750,000	7,500	870,000			877,500
Debt Discount on Warrants per Bridge Loan						183,187			183,187
Shares issued as inducement for Bridge Loan				650,000	6,500	200,105			206,605
Shares issued to employee in lieu of bonus				43,409	435	39,803			40,238
Warrants issued from loan by CEO						68,757			68,757
Vesting Expense						1,124,928			1,124,928
Net loss							(10,086,477)		(10,086,477)
Balance at 12/31/2018	\$ 792	-	79,246	14,091,748	\$ 140,917	\$63,019,708	\$(63,107,945)	\$ -	\$ 53,472

See Notes to Consolidated Financial Statements

PRECISION THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2018	2017
Cash flow from operating activities:		
Net loss	\$ (10,086,477)	\$ (6,003,017)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on equity method investment	2,293,580	-
Depreciation and amortization	147,628	71,562
Vesting expense for stock options and warrants	1,124,928	2,298,680
Equity instruments issued for management and consulting	335,238	359,133
Amortization of debt discount	385,111	-
Gain from sale of marketable securities	-	(1,837)
Gain on valuation of equity-linked instruments	(372,263)	-
Changes in assets and liabilities:		
Accounts receivable	(95,103)	(98,580)
Inventories	23,979	7,163
Prepaid expense and other assets	139,895	(141,329)
Accounts payable	305,227	(79,650)
Accrued expenses	493,899	(870,540)
Deferred revenue	16,402	(1,335)
Net cash used in operating activities:	(5,287,956)	(4,459,750)
Cash flow from investing activities:		
Proceeds from sale of marketable securities	-	284,665
Purchase of certificates of deposit	-	(3,084,971)
Redemption of certificates of deposit	244,971	2,940,000
Advances on notes receivable	(1,123,619)	(1,737,512)
Purchase of fixed assets	(177,732)	(45,093)
Purchase of intangibles	(54,271)	(10,179)
Net cash used in investing activities	(1,110,651)	(1,653,090)
Cash flow from financing activities:		
Proceeds from exercise of warrants into common stock	650,061	-
Proceeds from debt issuance	2,185,000	-
Net proceeds from issuance of preferred stock	-	1,300,001
Net proceeds from issuance of common stock	2,959,509	3,814,938
Net cash provided by financing activities	5,794,570	5,114,939
Net decrease in cash	(604,037)	(997,901)
Cash at beginning of period	766,189	1,764,090
Cash at end of period	\$ 162,152	\$ 766,189
Non-cash transactions in investing and financing activities		
Conversion of preferred stock to common stock	\$ 6,479	\$ -
Equity method investment – Helomics	1,542,250	-
Licensing fee for TumorGenesis	877,500	-

See Notes to Consolidated Financial Statements

PRECISION THERAPEUTICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Continuance of Operations

The Company was originally incorporated on April 23, 2002 in Minnesota as BioDrain Medical, Inc. Effective August 6, 2013, the Company changed its name to Skyline Medical Inc. Pursuant to an Agreement and Plan of Merger effective December 16, 2013, the Company merged with and into a Delaware corporation with the same name that was its wholly-owned subsidiary, with such Delaware Corporation as the surviving corporation of the merger. On August 31, 2015, the Company completed a successful offering and concurrent uplisting to The NASDAQ Capital Market. On February 1, 2018, the Company filed with the Secretary of State of Delaware a Certificate of Amendment to the Certificate of Incorporation to change the Company's corporate name from Skyline Medical Inc. to Precision Therapeutics Inc., effective February 1, 2018. Because of this change, the Company's common stock began trading under the new ticker symbol "AIPT," effective February 2, 2018. Skyline Medical ("Skyline") remains as an incorporated division of Precision Therapeutics Inc.

As of December 31, 2018, the registrant had 14,091,748 shares of common stock, par value \$.01 per share, outstanding. The Company has developed an environmentally safe system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care. The Company also makes ongoing sales of its proprietary cleaning fluid and filters to users of the STREAMWAY systems. In April 2009, the Company received 510(k) clearance from the FDA to authorize the Company to market and sell its STREAMWAY System products.

The Company acquired 25% of the capital stock of Helomics Holding Corporation ("Helomics"), in transactions in the first quarter of 2018, and in April 2018 the Company entered into a letter of intent for a proposed merger transaction to acquire the remaining ownership of Helomics. In June 2018, the Company and Helomics entered into a definitive merger agreement – see Note 4. The Company's precision medicine services – designed to use artificial intelligence and a comprehensive disease database to improve the effectiveness of cancer therapy – were launched with the Company's investment in Helomics. Helomics' precision oncology services are based on its D-CHIP™ diagnostic platform, which combines a database of genomic and drug response profiles from over 149,000 tumors with an artificial intelligence based searchable bioinformatics platform. Once a patient's tumor is excised and analyzed, the D-CHIP platform compares the tumor profile with its database, and using its extensive drug response data, provides a specific therapeutic roadmap. In addition, the Company has formed a wholly-owned subsidiary, TumorGenesis Inc. ("TumorGenesis"), to develop the next generation, patient derived tumor models for precision cancer therapy and drug development. TumorGenesis, formed during the first quarter, is presented as part of the consolidated financial statements ("financial statements").

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred recurring losses from operations and has an accumulated deficit of \$63,107,945. The Company does not expect to generate sufficient operating revenue to sustain its operations in the near-term. In 2018, the Company incurred negative operating cash flows of approximately \$441,000 per month. Although the Company has attempted to curtail expenses, there is no guarantee that the Company will be able to reduce these expenses significantly, and expenses may need to be higher to prepare product lines for broader sales in order to generate sustainable revenues.

The Company had cash and cash equivalents of \$162,152 as of December 31, 2018 and needs to raise significant additional capital to meet its operating needs, pay debt obligations coming due, and the continued operating needs of Helomics, therefore there is substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company has available financing options including a shelf registration statement on Form S-3, with which the Company has raised approximately \$2.1 million in net proceeds in early 2019. The Company may raise up to approximately \$1.7 million in additional gross proceeds in the next calendar year using the shelf registration statement. This amount of available financing will increase to approximately \$6.4 million in additional gross proceeds, once the Helomics acquisition is completed.

Since inception to December 31, 2018, the Company raised approximately \$36,490,000 in equity and \$7,870,000 in debt financing. Equity raises include: a January 2017 public offering of units with gross proceeds to the Company of \$3,937,500; a November 2017 private placement with gross proceeds of \$1,300,000; and, a January 2018 public offering with gross proceeds of \$2,755,000. Included in debt financing were raises in September 2018 on senior secured promissory notes with net proceeds of \$1,815,000, and in November 2018 the Company received a loan from the CEO for \$370,000. Subsequent to December 31, 2018, the Company's CEO made an additional loan to the Company and made a private investment in the Company's common stock, which in total, generated an additional \$1,300,000.

The Company has no commitments or contingencies.

Recent Accounting Developments

Accounting Policies and Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the standard on January 1, 2018 using the modified retrospective method applied to those contracts which were not completed as of December 31, 2017. Results for reporting periods beginning January 1, 2018 are presented under Topic 606, while prior-period amounts have not been retrospectively adjusted and continue to be reported in accordance with Topic 605, *Revenue Recognition*. Based upon the Company's contracts which were not completed as of December 31, 2017, the Company was not required to make an adjustment to the opening balance of retained earnings as of January 1, 2018, and there was no material impact. See Note 3 for further discussion.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). The standard changes how entities measure certain equity investments and present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. Under the new guidance, entities will be required to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The Company adopted the standard as of January 1, 2018. As of December 31, 2018, there is no material impact on the Company’s financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. The standard states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company adopted ASU 2016-02 on January 1, 2019, using the transition relief to the modified retrospective approach, presenting prior year information based on the previous standard. The adoption resulted in no material impact to the Company’s balance sheet, results of operations, equity or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to address diversity in how certain cash receipts and cash payments are presented and classified in the statements of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company adopted the standard as of January 1, 2018. As of December 31, 2018, there is no material impact on the Company’s financial statements and disclosures.

Valuation of Intangible Assets

The Company reviews identifiable intangible assets for impairment in accordance with ASC 360 — Intangibles — Goodwill and Other, whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The Company’s intangible assets are definite lived and currently solely the costs of obtaining licensing fees, trademarks, and patents. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant change in the medical device marketplace and a significant adverse change in the business climate in which the Company operates.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were \$43,548 in 2018 and \$37,060 in 2017.

Research and Development

Research and development costs are charged to operations as incurred. Research and development costs were approximately \$526,000 and \$289,000 for 2018 and 2017, respectively.

Revenue Recognition

The Company's revenue consists primarily of sales of the STREAMWAY System, as well as sales of the proprietary cleaning fluid and filters for use with the STREAMWAY System. The Company sells its products directly to hospitals and other medical facilities using employed sales representatives and independent contractors. Purchase orders, which are governed by sales agreements in all cases, state the final terms for unit price, quantity, shipping and payment terms. The unit price is considered the observable stand-alone selling price for the arrangements. The Company sales agreement, Terms and Conditions, is a dually executed contract providing explicit criteria supporting the sale of the STREAMWAY System. The Company considers the combination of a purchase order and the Terms and Conditions to be a customer's contract in all cases.

The Company recognizes revenue when it satisfies a performance obligation by transferring control of the promised goods or services to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Sales taxes are imposed on the Company's sales to nonexempt customers. The Company collects the taxes from the customers and remits the entire amounts to the governmental authorities. The Company has elected the accounting policy to exclude sales taxes from revenue and expenses.

Product sales consist of a single performance obligation that the Company satisfies at a point in time. The Company recognizes product revenue when the following events have occurred: (a) the Company has transferred physical possession of the products, (b) the Company has a present right to payment, (c) the customer has legal title to the products, and (d) the customer bears significant risks and rewards of ownership of the products. Based on the shipping terms specified in the sales agreements and purchase orders, these criteria are generally met when the products are shipped from the Company's facilities ("FOB origin", which is the Company's standard shipping terms). As a result, the Company determined that the customer is able to direct the use of, and obtain substantially all of the benefits from, the products at the time the products are shipped. The Company may, at its discretion, negotiate different shipping terms with customers which may affect the timing of revenue recognition. The Company's standard payment terms for its customers are generally 30 to 60 days after the Company transfers control of the product to its customer. The Company allows returns of defective disposable merchandise if the customer requests a return merchandise authorization from the Company.

Customers may also purchase a maintenance plan from the Company, which requires the Company to service the STREAMWAY System for a period of one year subsequent to the one-year anniversary date of the original STREAMWAY System invoice. The maintenance plan is considered a separate performance obligation from the product sale, is charged separately from the product sale, and is recognized over time (ratably over the one-year period) as maintenance services are provided. A time-elapsed output method is used to measure progress because the Company transfers control evenly by providing a stand-ready service. The Company has determined that this method provides a faithful depiction of the transfer of services to its customers.

All amounts billed to a customer in a sales transaction related to shipping and handling, if any, represent revenues earned for the goods provided, and these amounts have been included in revenue. Costs related to such shipping and handling billing are classified as cost of goods sold.

Variable Consideration

The Company records revenue from distributors and direct end customers in an amount that reflects the transaction price it expects to be entitled to after transferring control of those goods or services. The Company's current contracts do not contain any features that create variability in the amount or timing of revenue to be earned.

Cash Equivalents

The Company considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

Certificates of Deposit

Short-term interest-bearing investments are those with maturities of less than one year but greater than three months when purchased. Certificates with maturity dates beyond one year are classified as noncurrent assets. These investments are readily convertible to cash and are stated at cost plus accrued interest, which approximates fair value.

Fair Value Measurements

Under generally accepted accounting principles as outlined in the FASB's *Accounting Standards Certification* (ASC) 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards ASC 820 establishes a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

Level 1 – Observable inputs such as quoted prices in active markets;

Level 2 – Inputs other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 – Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

The Company uses observable market data, when available, in making fair value measurements. Fair value measurements are classified according to the lowest level input that is significant to the valuation.

The fair value of the Company's investment securities, which in 2018 are cash equivalents only, were determined based on Level 1 inputs.

Receivables

Receivables are reported at the amount the Company expects to collect on balances outstanding. The Company provides for probable uncollectible amounts through charges to earnings and credits to the valuation based on management's assessment of the current status of individual accounts. Changes to the valuation allowance have not been material to the financial statements.

Inventories

Inventories are stated at the net realizable value, with cost determined on a first-in, first-out basis. Inventory balances are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Finished goods	\$ 58,701	\$ 62,932
Raw materials	127,003	141,028
Work-In-Process	55,362	61,085
Total	<u>\$ 241,066</u>	<u>\$ 265,045</u>

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets. Depreciation is shown in the financial statements under fixed assets, net on the balance sheet, and amortization is shown under intangibles, net on the balance sheet. Estimated useful asset life by classification is as follows:

	Years	
Computers and office equipment	3	- 7
Leasehold improvements		5
Manufacturing Tooling	3	- 7
Demo Equipment		3

The Company's investment in fixed assets consists of the following:

	December 31, 2018	December 31, 2017
Computers and office equipment	\$ 204,903	\$ 183,528
Leasehold Improvements	140,114	25,635
Manufacturing Tooling	108,955	108,955
Demo Equipment	85,246	43,368
Total	539,218	361,486
Less: Accumulated Depreciation	358,765	273,770
Total Fixed Assets, Net	<u>\$ 180,453</u>	<u>\$ 87,716</u>

Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Depreciation expense was \$84,995 in 2018 and \$58,872 in 2017.

Intangible Assets

The components of intangible assets all of which are finite-lived were as follows:

	12/31/2018			12/31/2017		
	Gross Carrying Costs	Accumulated Amortization	Net Carrying Amount	Gross Carrying Costs	Accumulated Amortization	Net Carrying Amount
Patents & Trademarks	\$ 318,304	\$ (182,559)	\$ 135,745	\$ 264,032	\$ (168,676)	\$ 95,356
Licensing Fees	877,500	(48,750)	828,750	-	-	-
Total	<u>\$ 1,195,804</u>	<u>\$ (231,309)</u>	<u>\$ 964,495</u>	<u>\$ 264,032</u>	<u>\$ (168,676)</u>	<u>\$ 95,356</u>

The following table outlines the estimated future amortization expense related to intangible assets held as of December 31, 2018

	Year ending	Expense
2019		72,383
2020		72,383
2021		72,383
2022		72,383
2023		72,383
Thereafter		602,580
Total		<u>964,495</u>

Intangible assets consist of trademarks, patent costs and licensing fees. Amortization expense was \$62,633 in 2018 and \$12,689 in 2017. The assets are reviewed for impairment annually, and impairment losses, if any, are charged to operations when identified.

Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (Tax Reform Act) was signed into law making significant changes to the Internal Revenue Code. Changes include a reduction in the corporate tax rates, changes to operating loss carry-forwards and carrybacks, and a repeal of the corporate alternative minimum tax. The legislation reduced the U.S. corporate income tax rates from 34% to 21%. As a result of the enacted law, the Company was required to value its deferred tax assets and liabilities at the new enacted rate. There was no income tax impact from the re-measurement due to the 100% valuation allowance on the Company's deferred tax assets.

The Company accounts for income taxes in accordance with ASC 740 - *Income Taxes* ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and net operating loss and credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to impact taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company reviews income tax positions expected to be taken in income tax returns to determine if there are any income tax uncertainties. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on technical merits of the positions. The Company has identified no income tax uncertainties.

Offering Costs

Costs incurred which are direct and incremental to an offering of the Company's securities are deferred and charged against the proceeds of the offering, unless such costs are deemed to be insignificant in which case they are expensed as incurred.

Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash. The Company places its cash with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. The Company has no credit risk concentration because there are no funds in excess of insurance limits in a single bank.

Product Warranty Costs

In 2018 and in 2017, the Company incurred approximately \$10,682 and \$6,209, respectively in warranty costs.

Segments

The Company operates in two segments for the sale of its medical device and consumable products. These segments are its domestic operations and international operations. Substantially all the Company's assets, revenues, and expenses for the years ended December 31, 2018 and 2017 were located at or derived from operations in the United States. In 2018 and 2017, business activity within the Company's international segment was immaterial.

Risks and Uncertainties

The Company is subject to risks common to companies in the medical device industry, including, but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, and compliance with regulations of the FDA and other governmental agencies.

NOTE 2 – EQUITY METHOD INVESTMENT

The Company has an equity method investment in Helomics. Summarized financial information for Helomics is presented below:

Helomics Holdings Corporation	
	December 31, 2018
Current assets	\$ 419,266
Non-current assets	\$ 2,046,347
Total assets	\$ 2,465,613
Current liabilities	\$ 12,247,174
Total liabilities	\$ 12,247,174
	For the Year-ended Ended
	December 31, 2018
Revenue	\$ 523,546
Gross margin	\$ 214,426
Net loss on operations	\$ (5,056,725)
Net loss	\$ (9,452,835)
Net Loss to investee	\$ (7,159,255) ¹

¹The loss to investee was calculated at 80% for the initial period of ownership, January 11, 2018 – February 27, 2018, and then at 75% for the remainder of the twelve-month period at the current equity investment percentage owned by the Company.

Helomics' first year predominantly included diagnostic revenue only. The contract research organization and D-CHIP Artificial Intelligence products are in the process of launching and have generated approximately \$31,000 of revenue in the year-to-date.

The Helomics loss reduces the equity method investment asset on the balance sheet. The recorded investor losses have exceeded the equity method investment originally recorded total. As such, the equity method investment recorded to the balance sheet has been reduced to zero, and all subsequent losses reduced the note receivable due from Helomics. The note receivable on the balance sheet includes \$413,683, not including interest, for Helomics. The actual note due to the Company as of December 31, 2018 is \$1,165,013. The amount exceeding the original equity method investment and thus reducing the note receivable balance is \$751,330.

NOTE 3 – REVENUE RECOGNITION

Revenue from Product Sales

The Company's revenue consists primarily of sales of the STREAMWAY System, as well as sales of the proprietary cleaning fluid and filters for use with the STREAMWAY System. The Company sells its products directly to hospitals and other medical facilities using employed sales representatives and independent contractors. Purchase orders, which are governed by sales agreements in all cases, state the final terms for unit price, quantity, shipping and payment terms. The unit price is considered the observable stand-alone selling price for the arrangements. The Company sales agreement, Terms and

Conditions, is a dually executed contract providing explicit criteria supporting the sale of the STREAMWAY System. The Company considers the combination of a purchase order and the Terms and Conditions to be a customer's contract in all cases.

The Company recognizes revenue when it satisfies a performance obligation by transferring control of the promised goods or services to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Sales taxes are imposed on the Company's sales to nonexempt customers. The Company collects the taxes from the customers and remits the entire amounts to the governmental authorities. The Company has elected the accounting policy to exclude sales taxes from revenue and expenses.

Product sales consist of a single performance obligation that the Company satisfies at a point in time. The Company recognizes product revenue when the following events have occurred: (a) the Company has transferred physical possession of the products, (b) the Company has a present right to payment, (c) the customer has legal title to the products, and (d) the customer bears significant risks and rewards of ownership of the products. Based on the shipping terms specified in the sales agreements and purchase orders, these criteria are generally met when the products are shipped from the Company's facilities ("FOB origin", which is the Company's standard shipping terms). As a result, the Company determined that the customer is able to direct the use of, and obtain substantially all of the benefits from, the products at the time the products are shipped. The Company may, at its discretion, negotiate different shipping terms with customers which may affect the timing of revenue recognition. The Company's standard payment terms for its customers are generally 30 to 60 days after the Company transfers control of the product to its customer. The Company allows returns of defective disposable merchandise if the customer requests a return merchandise authorization from the Company.

Customers may also purchase a maintenance plan from the Company, which requires the Company to service the STREAMWAY System for a period of one year subsequent to the one-year anniversary date of the original STREAMWAY System invoice. The maintenance plan is considered a separate performance obligation from the product sale, is charged separately from the product sale, and is recognized over time (ratably over the one-year period) as maintenance services are provided. A time-elapsed output method is used to measure progress because the Company transfers control evenly by providing a stand-ready service. The Company has determined that this method provides a faithful depiction of the transfer of services to its customers.

All amounts billed to a customer in a sales transaction related to shipping and handling, if any, represent revenues earned for the goods provided, and these amounts have been included in revenue. Costs related to such shipping and handling billing are classified as cost of goods sold.

Variable Consideration

The Company records revenue from distributors and direct end customers in an amount that reflects the transaction price it expects to be entitled to after transferring control of those goods or services. The Company's current contracts do not contain any features that create variability in the amount or timing of revenue to be earned.

Warranty

The Company generally provides one-year warranties against defects in materials and workmanship and will either repair the products or provide replacements at no charge to customers. As they are considered assurance-type warranties, the Company does not account for them as separate performance obligations. Warranty reserve requirements are based on a specific assessment of the products sold with warranties where a customer asserts a claim for warranty or a product defect.

Contract Balances

The Company records a receivable when it has an unconditional right to receive consideration after the performance obligations are satisfied. As of December 31, 2018, and December 31, 2017, accounts receivable totaled \$232,602 and \$137,499, respectively.

The Company deferred revenues related primarily to maintenance plans of \$23,065 and \$6,663 as of December 31, 2018 and December 31, 2017, respectively.

Practical Expedients

The Company has elected the practical expedient not to determine whether contracts with customers contain significant financing components.

NOTE 4 – STOCKHOLDERS' EQUITY (DEFICIT), STOCK OPTIONS AND WARRANTS

2017 Firm Commitment Public Offering

On January 19, 2017, the Company closed a firm commitment public offering for 1,750,000 Units at \$2.25 per Unit. The Units comprised one share of common stock and 0.2 Series D Warrants with each whole Series D Warrant purchasing one share of the Company's common stock at an exercise price of \$2.25 per share. The Company received gross proceeds of \$3,937,500. Subsequently the underwriter exercised over-allotment for 175,000 shares of common stock and for Series D warrants to purchase 35,000 shares of common stock at \$0.01 per warrant. The Company received net proceeds from the over-allotment of \$358,312.

2017 Private Placement

On November 30, 2017, the Company closed a private placement of a newly created series of preferred stock designated as "Series C Convertible Preferred Stock" with a New York based Family Office. Pursuant to the Securities Purchase Agreement, the investor purchased 1,213,819 shares of Series C stock at a purchase price of \$1.071 per Series C Share, together with a warrant to purchase up to 606,910 shares of common stock. The warrant has an exercise price of \$1.26 per share, subject to adjustment, has a five- and one-half-year term and is exercisable commencing six months following the date of issuance. Total gross proceeds to the Company were \$1,300,000 before deducting expenses and will be used for general working capital. In connection with the offering and pursuant to a registration rights agreement, the Company has agreed to file a "resale" registration statement covering all of the shares of common stock issuable upon conversion of the warrant. Pursuant to the Securities Purchase agreement, and as of this filing date, all the Preferred Series C shares were converted at a conversion rate of 1.167 to a maximum of 1,250,269 shares of common stock. The remaining 142,466 shares of Preferred Series C stock were cancelled with a redemption payment to the holder for \$189,285.

2018 Firm Commitment Public Offering

In January 2018, the Company completed a firm commitment underwritten public offering of 2,900,000 Units at an offering price of \$0.95 per Unit, with each Unit consisting of one share of the Company's common stock and 0.3 of a Series E Warrant, with each whole Series E Warrant purchasing one share of common stock at an exercise price of \$1.00 per whole share. The shares of common stock and Series E Warrants were immediately separable and were issued separately. Gross proceeds were approximately \$2,755,000, before deducting expenses. The Company granted the underwriter a 45-day option to purchase an additional (i) up to 290,000 additional shares of common stock at the public offering price per Unit less the price of the Series E Warrant included in the Units and less the underwriting discount and/or (ii) additional Series E Warrants to purchase up to 87,000 additional shares of common stock at a purchase price of \$0.001 per Series E Warrant to cover over-allotments, if any. On February 21, 2018, the underwriter exercised on 215,247 shares of common stock, par value \$0.01, at \$0.9497 per share as described in the Underwriting Agreement. The Company received net proceeds of \$188,066 after deductions of \$16,354 representing the underwriter's discount of 8% of the purchase price of the shares.

Share Exchange Agreement with Helomics

On January 11, 2018, the Company entered into a share exchange agreement with Helomics Holding Corporation. Pursuant to the share exchange agreement, Helomics issued 2,500,000 shares of its Series A Preferred Stock in exchange for 1,100,000 shares of common stock. Under the share exchange agreement, in March 2018 the Company converted \$500,000 in secured notes into another 5% of Helomics' outstanding shares, which resulted in the Company owning 25% of Helomics outstanding stock. The secured notes are related to the Company's previous loans of \$500,000 to Helomics. The 1,100,000 shares are being held in escrow by Corporate Stock Transfer, Inc. as escrow agent. While the Company's shares are held in escrow, they will be voted as directed by the Company's board of directors and management. The Company shares will be released to Helomics following a determination that Helomics' revenues in any 12-month period have been equal or greater than \$8,000,000. The Helomics Preferred Stock issued to the Company is convertible into an aggregate of 20% of the outstanding capital stock of Helomics. In addition, the terms of the Helomics Preferred Stock include certain protective provisions that require consent of the Company before Helomics may take certain actions, including issuing preferred stock senior to the Helomics Preferred Stock or entering into fundamental corporate transactions. The Company also has certain anti-dilution protections and the right to receive dividends.

Merger Agreement with Helomics

On June 28, 2018, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Helomics and certain other entities. On October 26, 2018, the Merger Agreement was amended and restated. The Merger Agreement contemplated a reverse triangular merger with Helomics surviving the merger and becoming a wholly-owned operating subsidiary of the Company (the “Merger”). At the time of the Merger, all outstanding shares of Helomics stock not already held by the Company were to be converted into the right to receive a proportionate share of 7.5 million shares of newly issued common stock in the Company (“Merger Shares”), in addition to the 1.1 million shares of the Company’s common stock already issued to Helomics for the Company’s initial 20% ownership in Helomics. Additionally, 860,000 shares of the merger consideration were to be held in escrow for 18 months to satisfy indemnification claims. Helomics currently has outstanding \$7.6 million in promissory notes and warrants to purchase 18.7 million shares at an exercise price of \$1.00 per share of Helomics common stock held by the investors in the promissory notes. As a result of the Merger, the holders of said promissory notes and warrants would be entitled to additional warrants to purchase up to 5.0 million additional shares of Helomics common stock at an exercise price of \$1.00 per share. Helomics agreed to use commercially reasonable efforts to cause the holder of each such promissory note to enter into an agreement whereby such holder agrees that, effective upon the closing of the Merger, (a) all or a certain portion of the indebtedness evidenced by such promissory note shall be converted into common stock in the Company, (b) all of such holder’s Helomics’ warrants shall be converted into warrants of the Company, and (c) the unconverted portion of said indebtedness shall be converted into a promissory note issued by the Company dated as of the closing of the Merger. The Merger is expressly conditioned on the holders of at least 75% of the \$7.6 million in outstanding Helomics promissory notes agreeing to such an exchange (and the parties contemplate that each Helomics warrant will be exchanged for a Company warrant at a ratio of 0.6 Precision warrants for each Helomics warrant, with an exercise price of \$1.00 per share. If all holders of such notes agreed to the exchange with respect to the full balance of the notes, such holders would receive an aggregate estimated 23.7 million shares of the Company’s common stock and warrants to purchase an additional 14.2 million shares of the Company’s common stock at \$1.00 per share. In addition, Helomics currently has 995,000 warrants held by other parties at an exercise price of \$0.01 per share of Helomics common stock. It is contemplated that these warrants will be exchanged at the time of the closing of the Merger for warrants to purchase 597,000 shares of Precision common stock at \$0.01 per share.

Under the Merger Agreement, completion of the Merger is subject to customary closing conditions including the approval of the Merger by the stockholders of both companies and other conditions. The Merger Agreement likewise contains customary representations, warranties and covenants, including covenants obligating each of the Company and Helomics to continue to conduct their respective businesses in the ordinary course, and to provide reasonable access to each other’s information. Finally, the Merger Agreement contains certain termination rights in favor of each of the Company and Helomics.

At a special meeting of stockholders on March 22, 2019, the Company’s stockholders approved the Merger Agreement.

On July 10 and 11, 2018, the Company issued 250,000 shares of common stock, par value \$0.01, at \$1.18 per share for consulting fees pursuant to the TumorGenesis license fees contract, and 750,000 shares of common stock, par value \$0.01, at \$1.17 per share, in escrow, for TumorGenesis license fees pursuant to the TumorGenesis license fees contract.

Increases in Authorized Shares

At a special meeting of the stockholders on January 29, 2017, the stockholders approved a proposal to increase the number of authorized shares of common stock from 8,000,000 shares to 24,000,000 shares of common stock under the Company's certificate of incorporation.

At the annual meeting on December 28, 2017, the stockholders approved a proposal to increase the number of authorized shares of common stock from 24,000,000 to 50,000,000 shares of common stock, \$0.01 par value. The amendment to the certificate of incorporation to affect this increase was filed on January 2, 2018.

At the special meeting of stockholders on March 22, 2019, the stockholders approved a proposal to increase the number of authorized shares of common stock from 50,000,000 to 100,000,000 shares of common stock, \$0.01 par value. The amendment to the certificate of incorporation to affect this increase was filed on March 22, 2019.

Equity Incentive Plan

The Company has an equity incentive plan, which allows issuance of incentive and non-qualified stock options to employees, directors and consultants of the Company, where permitted under the plan. The exercise price for each stock option is determined by the market price on the date of issuance. Vesting requirements are determined by the Board of Directors when granted and currently range from immediate to three years. Options under this plan have terms ranging from three to ten years.

Accounting for share-based payment

ASC 718 – *Compensation – Stock Compensation*, (“ASC 718”) requires that a company that issues equity as compensation needs to record compensation expense on its statements of comprehensive loss that corresponds to the estimated cost of those equity grants. ASC 718 requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model or other acceptable means. The Company uses the Black-Scholes option valuation model which requires the input of significant assumptions including an estimate of the average period of time employees will retain vested stock options before exercising them, the estimated volatility of the Company's common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions the Company uses in calculating the fair value of stock-based payment awards represent the Company's best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the Company's equity-based compensation expense could be materially different in the future.

Since the Company's common stock has no significant public trading history, and the Company has experienced no significant option exercises in its history, the Company policy is to take an alternative approach to estimating future volatility and estimated life and the future results could vary significantly from the Company's estimates. The Company has been on the NASDAQ Capital Market since 2015 and has had a volatile stock including reverse stock splits. In the case of ordinary options to employees the Company determined the expected life to be the midpoint between the vesting term and the legal term. In the case of options or warrants granted to non-employees, the Company estimated the life to be the legal term unless there was a compelling reason to make it shorter.

When an option or warrant is granted in place of cash compensation for services, the Company deems the value of the service rendered to be the value of the option or warrant. In most cases, however, an option or warrant is granted in addition to other forms of compensation and its separate value is difficult to determine without utilizing an option pricing model. For that reason the Company also uses the Black-Scholes option-pricing model to value options and warrants granted to non-employees, which requires the input of significant assumptions including an estimate of the average period the investors or consultants will retain vested stock options and warrants before exercising them, the estimated volatility of the Company's common stock price over the expected term, the number of options and warrants that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based consulting and/or compensation and, consequently, the related expense recognized.

On April 19, 2017, the Company terminated the Company's Partnership and Exclusive Reseller Agreement with GLG Pharma, LLC and thereby received 400,000 shares of common stock, par value \$0.01, from escrow.

For grants of stock options and warrants in 2017 the Company used a 1.92% to 2.40% risk free interest rate, 0% dividend rate, 59% to 66% volatility and estimated terms of 5 to 10 years. Value computed using these assumptions ranged from \$0.6541 to \$1.5489 per share.

On January 15, 2018, the Company issued inducement stock options in accordance with NASDAQ listing rule for 50,000 shares of common stock, par value \$0.01 at \$0.97 per share to the Company's newly hired International Vice President of Sales. The options will vest in four equal increments: on the first, second, third and fourth quarters of the hiring date anniversary.

On March 12, 2018, the Company issued inducement stock options in accordance with NASDAQ rule for 111,112 shares of common stock, par value \$0.01 at \$1.35 per share to the Company's newly hired Vice President of Sales and Marketing. The options will vest in four equal increments: on the first, second, third and fourth quarters of the hiring date anniversary.

For grants of stock option and warrants in 2018 the Company used 2.33% to 3.07% risk free interest rate, 0% dividend rate, 59% to 66% volatility and estimated terms of 5 to 10 years. Value computed using these assumptions ranged from \$0.3816 to \$1.0044 per share.

The following summarizes transactions for stock options and warrants for the periods indicated:

	Stock Options		Warrants	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2016	165,643	\$ 11.22	871,101	\$ 52.22
Issued	2,612,070	1.45	1,082,946	1.49
Expired	(12,730)	10.39	(2,790)	281.46
Exercised	-	-	-	-
Outstanding at December 31, 2017	2,764,983	\$ 2.00	1,951,257	\$ 23.74
Issued	1,098,858	1.01	2,336,154	1.07
Expired	(194,564)	2.00	(10,706)	199.55
Exercised	-	-	(650,062)	1.00
Outstanding at December 31, 2018	<u>3,669,277</u>	<u>\$ 1.70</u>	<u>3,626,643</u>	<u>\$ 4.17</u>

At December 31, 2018, 2,946,488 stock options are fully vested and currently exercisable with a weighted average exercise price of \$1.79 and a weighted average remaining term of 8.86 years. There are 2,247,489 warrants that are fully vested and exercisable. Stock-based compensation recognized in 2018 and 2017 was \$1,124,928 and \$2,298,680, respectively. The Company has \$741,922 of unrecognized compensation expense related to non-vested stock options that are expected to be recognized over the next 20 months.

The following summarizes the status of options and warrants outstanding at December 31, 2018:

	Range of Exercise Prices	Shares	Weighted Average Remaining Life
Options:			
\$0.619		201,908	10.00
\$0.82		60,000	9.91
\$0.91		10,000	9.30
\$0.965		3,000	9.38
\$0.97		191,753	9.02
\$1.01		149,110	9.12
\$1.06		23,585	9.76
\$1.10		86,958	9.46
\$1.13		195,931	9.55
\$1.15		21,740	9.59
\$1.16		66,451	9.59
\$1.18		30,000	9.61
\$1.20		41,668	9.59
\$1.21		30,000	9.61
\$1.35		111,112	9.20
\$1.454		17,200	8.75
\$1.47		2,305,790	8.48
\$2.10		14,286	8.25
\$2.25		293	7.65
\$2.42		20,640	7.64
\$2.80		57,145	8.01
\$3.75		4,000	7.50
\$4.125		3,636	7.75
\$4.1975		7,147	7.72
\$4.25		3,529	7.25
\$5.125		3,902	7.69
\$65.75		190	6.81
\$73.50		1,157	7.01
\$77.50		2,323	6.50
\$80.25		187	6.75
\$86.25		232	6.25
\$131.25		81	3.69
\$148.125		928	4.21
\$150.00		1,760	3.63
\$162.50		123	6.01
\$206.25		121	5.75
\$248.4375		121	4.54
\$262.50		130	4.54
\$281.25		529	4.04
\$318.75		3	4.35
\$346.875		72	5.25
\$431.25		306	5.19
\$506.25		188	5.00
\$596.25		42	4.75
Total		3,669,277	
Warrants:			
\$0.836		221,292	4.92
\$1.00		1,063,935	3.76
\$1.07		697,946	3.85
\$1.155		1,071,776	4.75
\$1.3125		86,086	4.75
\$2.25		385,000	3.06
\$123.75		94,084	1.67
\$243.75		2,529	0.59
\$309.375		2,850	0.61
\$309.50		222	0.85
\$506.25		59	0.12
\$609.375		862	0.09
Total		3,626,643	

Stock options and warrants expire on various dates from January 2019 to December 2028.

The Company's board of directors had determined that the Company would require additional authorized shares for anticipated equity financings, future equity offerings, strategic acquisition opportunities, and the continued issuance of equity awards under our stock incentive plan to recruit and retain key employees, and for other proper corporate purposes. As a result, the board of directors called a special meeting of the stockholders that took place on January 29, 2017. The vote, a proposal to increase the number of authorized shares of common stock from 8,000,000 shares to 24,000,000 shares of common stock under the Company's certificate of incorporation passed. On December 28, 2017, the Company held its annual meeting. Pursuant to the meeting on January 2, 2018, the Certificate of Incorporation of the Company was amended to increase the number of authorized shares of common stock from 24,000,000 to 50,000,000 shares of common stock, \$0.01 par value. Additionally, the stockholders approved an amendment to the Company's 2012 Plan to (i) increase the reserve of shares of common stock authorized for issuance thereunder to 5,000,000, (ii) to increase certain threshold limits for grants, and (iii) to re-approve the performance goals thereunder. Pursuant to the annual meeting and the aforementioned approvals, and as explained in the Company's definitive proxy statement filed with the SEC on December 4, 2017, amendments to the 2012 Plan were considered at the 2016 annual meeting but were not approved by the required vote. For options to purchase approximately 2.5 million shares granted after the 2016 annual meeting, the grantees agreed not to exercise the options prior to further stockholder approval of an increase in the reserve under the 2012 Plan. As a result of the stockholder approval of the amendments at the 2017 annual meeting, these restrictions on exercise were removed on December 28, 2017. Due to the removal of this restriction on exercise, the Company recognized a non-cash charge for compensation expense of approximately \$1.9 million in the fourth quarter of 2017.

Stock Options and Warrants Granted by the Company

The following table is the listing of outstanding stock options and warrants as of December 31, 2018 by year of grant:

Stock Options:

Year	Shares	Price	
2011	173	281.25	
2012	1,841	131.25	– 150.00
2013	1,553	148.13	– 596.25
2014	836	162.50	– 431.25
2015	4,088	65.75	– 86.25
2016	100,294	2.25	– 5.13
2017	2,461,634	1.01	– 2.10
2018	1,098,858	0.62	– 1.35
Total	3,669,277	\$0.62	– 596.25

Warrants:

Year	Shares	Price	
2014	6,455	243.75	– 609.38
2015	94,151	0.00	– 243.75
2016	252,333	1.00	
2017	1,082,946	1.07	– 2.25
2018	2,190,758	0.84	– 1.3125
Total	3,626,643	\$0.00	– 609.38

NOTE 5– NOTES RECEIVABLE

In July 2017, the Company began to advance funds to CytoBioscience for working capital for CytoBioscience's business. All the notes receivable bear simple interest at 8% and were due in full on December 31, 2017. All the notes are covered by a security interest in all of CytoBioscience's accounts receivable and related rights in connection with all of the advances. The principal amount of the secured promissory notes receivable from CytoBioscience totaled \$1,070,000 as of December 31, 2017. In March 2018, the Company executed a new note replacing all previous CytoBioscience notes for \$1,112,524, plus interest paid monthly at the per annum rate of (8%) on the principal amount. The secured note has a term of two years with the unpaid principal and unpaid accrued interest due and payable on February 28, 2020. CytoBioscience was current in its payments to the Company through and including July 2018. The Company had not received the scheduled interest payments from CytoBioscience for August through yearend. On September 27 and 28, 2018 CytoBioscience, through its parent company (WestMountain; now named InventaBioTech, OTC symbol INVB), made public filings indicating that their notes payable was in default. In October 2018, CytoBioscience communicated to the Company that CytoBioscience is raising capital that it believes will allow it to resume debt service payments, and that CytoBioscience wishes to negotiate an extension to the note. The Company has reached agreement with CytoBioscience on repayment and in February and March 2019 received payments towards the interest due and a portion of the principal. As of December 31, 2018, the Company does not believe a reserve is needed.

In October 2017, the Company advanced \$600,000 for working capital for Helomics' business. Additionally, in December 2017, the Company advanced \$67,512 to De Lage Landen, a vendor of Helomics, as a fifty percent (50%) down payment for a lease to purchase certain equipment. The note is covered by a security interest in certain equipment of Helomics. In March 2018, the Company converted \$500,000 of the note receivable into 833,333 shares of common stock for an additional 5% interest in Helomics. The Company now has an equity stake in Helomics totaling 25%.

In September 2018, the Company advanced an additional \$60,000 for working capital for Helomics' business. The balance due to the Company is \$163,468, plus interest as of September 30, 2018. Subsequently in October 2018, the Company advanced \$907,500 for working capital for Helomics' business. In December 2018, the Company advanced \$30,000 to Helomics under the same note. The balance due to the Company at December 31, 2018, is \$1,165,013 in principal, plus interest of \$29,215. On the balance sheet there is a reduction to the loan of \$751,330 due to the equity method accounting losses incurred from Helomics ownership; see Note 2. In January and February 2019, the Company also advanced Helomics \$305,000. In March 2019, the Company advanced an additional \$420,000 to Helomics from the Form S-3 public offering that netted the Company approximately \$1.1M. The balance to date owed by Helomics is \$1,890,013 plus interest. The Company expects that additional advances will be required before the merger is complete. All additional advances are covered by the security interest in certain equipment of Helomics. In addition, Helomics pledged all of its assets as security for the Company's convertible secured note financing. Upon completion of the merger with Helomics all intercompany notes would be eliminated in their entirety.

NOTE 6 – CONVERTIBLE DEBT AND DERIVATIVE LIABILITY

Effective September 28, 2018 (the “Effective Date”), the Company issued convertible secured promissory notes to two private investors in the original principal amount of an aggregate \$2,297,727 (the “bridge loan”). The Company and Helomics have granted to each of the investors a security interest in their assets to secure repayment of the notes. The securities purchase agreements with the investors also provide for a second investment of an aggregate of \$500,000 by the investors at the consummation of the Merger transaction with Helomics, at which point the aggregate principal amounts of the notes will become \$2,865,909. As additional consideration for the investment, the Company issued an aggregate 650,000 shares of its common stock (the “Inducement Shares”) to the investors or their affiliates plus warrants to acquire up to an aggregate 1,071,776 shares of the Company’s common stock at an exercise price of \$1.155 per share. Upon the closing of the second tranche investment, the warrants would be increased to cover an aggregate total of 1,336,805 shares. Each warrant is exercisable by the investor beginning on the sixth month anniversary of the effective date through the fifth-year anniversary thereof.

The notes accrue interest at a rate of 8% per annum (with twelve months of interest guaranteed). The maturity date of the notes is twelve months from the Effective Date. Upon the earlier to occur of an event of default (as defined in the notes) or the filing of certain registration statements, each investor will have the right at any time thereafter to convert all or any part of its Note into shares of the Company’s common stock at a conversion price which is equal to the lesser of: (i) \$1.00 and (ii) 70% of the lowest volume-weighted average price (the “VWAP”) of the Company’s common stock during the 20-trading day period ending on either the last complete trading day prior to the conversion date, or the conversion date (“Conversion Shares”). The number of Conversion Shares that may be issued is subject to an exchange cap such that the sum of (a) the total number of Conversion Shares plus (b) the number of Inducement Shares is limited to an aggregate 2,678,328 shares.

Management has concluded the conversion feature is an embedded derivative that is required to be bifurcated and separately presented as a liability on the balance sheet. The embedded derivative’s value was determined using 70% of the VWAP for the 20 trading days preceding the balance sheet date, and assuming conversion on that date as management believed it is probable that the notes will be convertible based on management’s expectation that additional financing will be required.

The Company accounted for the warrants by deriving the Black-Scholes value ascertained with a discount rate of 2.94% over five years with a 59% volatility rate pursuant to the Company’s established warrant volatility and a calculated value per warrant of .5361 resulting in a fair value of \$574,631. Management concluded that the warrants and Inducement Shares qualify for equity classification. The proceeds from the bridge loan were allocated between the convertible note, warrants, and inducement shares based on the relative fair value of the individual elements. In December 2018, the derivative liability was adjusted for the change in the 70% of the VWAP for the 20 days preceding the balance sheet date and assuming conversion on that date as management believed it is probable that the notes will be convertible based on management’s expectation that additional financing will be required. The derivative liability recorded in September 2018 was \$645,008. The fair value of the derivative liability as of December 31, 2018 is \$272,745. An unrealized gain for the corresponding change in fair value was recorded to other income in 2018.

The value of the embedded derivative was based upon level 3 inputs – see the Fair Value Caption in Note 1.

NOTE 7 - LOSS PER SHARE

The following table presents the shares used in the basic and diluted loss per common share computations:

	Year Ended December 31,	
	2018	2017
Numerator:		
Net loss available in basic and diluted	\$ (10,086,477)	\$ (6,003,017)
Denominator:		
Weighted average common shares outstanding-basic	12,816,289	6,362,989
Effect of dilutive stock options warrants and preferred stock (1)	-	-
Weighted average common shares outstanding-diluted	12,816,289	6,362,989
Loss per common share-basic and diluted	\$ (0.79)	\$ (0.94)

(1) The number of shares underlying options and warrants outstanding as of December 31, 2018 and December 31, 2017 are 7,295,921 and 4,716,240, respectively. The number of shares underlying the preferred stock as of December 31, 2018 is 79,246 for Series B Convertible. The number of shares underlying the convertible debt is 3,294,087. The effect of the shares that would be issued upon exercise of such options, warrants, convertible debt and preferred stock has been excluded from the calculation of diluted loss per share because those shares are anti-dilutive.

NOTE 8- INCOME TAXES

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Tax Reform Act was enacted December 22, 2017. Effective January 1, 2018 the Tax Reform Act reduced corporate income tax rates from 34% to 21%. Other changes effect operating loss carry-forwards and carrybacks, as well as a repeal of the corporate alternative minimum tax. As a result of the Tax Reform Act, deferred tax assets and liabilities were re-measured to account for the lower tax rates. There was no income tax impact from the re-measurement due to the 100% valuation allowance on the Company's deferred tax assets.

There is no federal or state income tax provision in the accompanying statements of comprehensive loss due to the cumulative operating losses incurred and 100% valuation allowance for the deferred tax assets.

Actual income tax benefit (expense) differs from statutory federal income tax benefit (expense) as follows for the years ended December 31:

	2018	2017
Statutory federal income tax benefit	\$ 2,118,160	\$ 2,633,841
State tax benefit, net of federal taxes	66,117	76,922
Foreign tax benefit	132,931	-
Foreign operations tax rate differential	(94,373)	-
State rate adjustment	15,355	(77,556)
R&D tax credit	22,532	-
Nondeductible/nontaxable items	(118,905)	(757,149)
State NOL adjustment	746,479	-
OID and derivatives	(159,037)	-
NQSO adjustment	-	537,884
New federal rate adjustment	-	(4,974,121)
Other	47,868	(8,336)
Valuation allowance decrease (increase)	(2,777,127)	2,568,515
Total income tax benefit (expense)	\$ -	\$ -

Deferred taxes consist of the following as of December 31:

	2018	2017
Deferred tax assets:		
Noncurrent:		
Depreciation	\$ 4,488	\$ 3,251
Inventory	6,991	6,950
Compensation accruals	60,905	50,436
Accruals and reserves	77,777	64,732
Charitable contribution carryover	3,972	4,068
Derivatives	57,276	-
Related party investments	481,652	-
Intangibles	2,020	-
NQSO compensation	1,019,139	766,648
NOL and credits	9,655,388	7,479,505
Total deferred tax assets	<u>11,369,608</u>	<u>8,375,590</u>
Deferred tax liabilities:		
Noncurrent:		
Original issue discount	(216,891)	-
Total deferred tax liabilities	<u>(216,891)</u>	<u>-</u>
Net deferred tax assets	11,152,717	8,375,590
Less: valuation allowance	(11,152,717)	(8,375,590)
Total	<u>\$ -</u>	<u>\$ -</u>

The Company has determined, based upon its history, that it is probable that future taxable income may be insufficient to fully realize the benefits of the net operating loss carryforwards and other deferred tax assets. As such, the Company has determined that a full valuation allowance is warranted. Future events and changes in circumstances could cause this valuation allowance to change.

During December 2013, the Company experienced an "ownership change" as defined in Section 382 of the Internal Revenue Code which could potentially limit the ability to utilize the Company's net operating losses (NOLs). The Company may have experienced additional "ownership change(s)" since December 2013, but a formal study has not yet been performed. The general limitation rules allow the Company to utilize its NOLs subject to an annual limitation that is determined by multiplying the federal long-term tax-exempt rate by the Company's value immediately before the ownership change.

At December 31, 2017, the Company had approximately \$34,529,255 of gross NOLs to reduce future federal taxable income, the majority of which are expected to be available for use in 2018, subject to the Section 382 limitation described above. The federal NOLs will expire beginning in 2022 if unused. The Company also had approximately \$12,261,799 of gross NOLs to reduce future state taxable income at December 31, 2017. The state NOL's will expire beginning in 2022 if unused. The Company's net deferred tax assets, which include the NOLs, are subject to a full valuation allowance. At December 31, 2017, the federal and state valuation allowances were \$8,129,778 and \$245,812, respectively.

At December 31, 2018, the Company had approximately \$40,094,472 of gross NOLs to reduce future federal taxable income, the majority of which are expected to be available for use in 2019, subject to the Section 382 limitation described above. The federal NOLs will expire beginning in 2022 if unused. The Company also had approximately \$12,940,458 of gross NOLs to reduce future state taxable income at December 31, 2018. The state NOL's will expire beginning in 2022 if unused. The Company also had approximately \$421,782 in gross foreign NOLs to reduce future Belgian taxable income at December 31, 2018. The Company's net deferred tax assets, which include the NOLs, are subject to a full valuation allowance. At December 31, 2018, the federal, state and foreign valuation allowances were \$9,603,237, \$1,416,758 and \$132,722, respectively.

Tax years subsequent to 2014 remain open to examination by federal and state tax authorities. The Company reviews income tax positions expected to be taken in income tax returns to determine if there are any income tax uncertainties. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on technical merits of the positions. The Company has identified no income tax uncertainties.

The Company recognizes interest and penalties on unrecognized tax benefits as well as interest received from favorable tax settlements within income tax expense. At December 31, 2018 and 2017, the Company recorded no accrued interest or penalties related to uncertain tax positions.

NOTE 9– RENT OBLIGATION

Precision’s corporate offices are located at 2915 Commers Drive, Suite 900, Eagan, Minnesota 55121. On November 22, 2017, the Company signed a second amendment to its lease last amended on January 28, 2013. The lease as amended has a three-year term effective February 1, 2018 ending January 31, 2021. The Company leases 5,773 square feet at this location, of which 2,945 square feet is used for office space and 2,828 is used for manufacturing. The Company expects that this space will be adequate for our current office and manufacturing needs.

Skyline Medical Europe’s offices are located at 9 Chemin de la Fraise – 1380 Ohain, Belgium. The lease agreement was signed April 24, 2018 and started on June 15, 2018. The Company leases around 2,000 square feet at this location, 300 of which is used for storage and 1,250 for office space. The lease is effective through June 14, 2027. We expect that this space will be adequate for our current office and storage needs. Rent expense is 3,000 Euros Per month.

Rent expense was \$69,013 and \$66,122 for 2018 and 2017, respectively.

The Company’s rent obligation for the next five years are as follows:

2019	\$	80,320
2020		82,320
2021		43,320
2022		40,320
2023		40,320
Thereafter		161,280

NOTE 10 - RELATED PARTY TRANSACTIONS

The Audit Committee has the responsibility to review and approve all transactions to which a related party and the Company may be a party prior to their implementation, to assess whether such transactions meet applicable legal requirements.

One of the Company’s directors, Richard L. Gabriel, is the Chief Operating Officer and serves as a director of GLG Pharma (“GLG”). Another Company director, Tim Krochuk, is on the supervisory board for GLG. The Company and GLG have a partnership agreement with Helomics for the purpose of bringing together their proprietary technologies to build out personalized medicine platform for the diagnosis and treatment of women’s cancer. There has been no revenue or expenses generated by this partnership to date.

Richard L. Gabriel is also contracted as the Chief Operating Officer for TumorGenesis the 100% wholly-owned subsidiary of the Company. Mr. Gabriel receives \$12,000 per month pursuant to a renewable six-month contract. The contract extends to March 31, 2019.

On November 30, 2018, our CEO, Carl Schwartz, made an investment of \$370,000 in the Company and received a note and a common stock purchase warrant for 221,292 warrant shares at \$0.836 per share. Effective as of January 8, 2019, Dr. Schwartz made an additional investment of \$950,000 and received an amended and restated note in the original principal amount of \$1,320,000 and an amended and restated warrant, which added a second tranche of 742,188 warrant shares at an exercise price of \$0.704. Each tranche is exercisable beginning on the sixth month anniversary of the date of the related investment through the fifth-year anniversary of the date of the related investment. On January 8, 2019, Dr. Schwartz also purchased 78,125 shares of the Company’s common stock in a private investment for \$50,000, representing a price of \$0.64 per share, pursuant to a subscription agreement. On February 6, 2019, Dr. Schwartz made an additional investment of \$300,000 in the Company and received an amended and restated note in the original principal amount of \$1,620,000 and an amended and restated warrant, which added a third tranche of 138,889 warrant shares at an exercise price of \$1.188 per share. On February 1, 2019 and the first day of each calendar month thereafter while the note and the warrant remain outstanding, a number of additional shares will be added to the second tranche and the third tranche equal to (1) one-half percent (1/2%) of the outstanding principal balance of the Note on such date, divided by (2) the closing price of the Company’s common stock on that date. The number of warrant shares will be subject to a share limit such that the total of (a) the 78,128 shares of common stock purchased by Dr. Schwartz on January 8, 2019, and (b) the total number of warrant shares (1,108,596 warrant shares as of February 6, 2019) may not exceed 2,818,350 shares (equal to 19.9% of the outstanding shares of common stock on January 8, 2019). If the second tranche and/or third tranche cannot be increased as required herein due to the share limit, then in lieu of any such increase, the Company shall pay to Dr. Schwartz a cash amount equal to one-half percent (1/2%) of the principal balance of the Schwartz note in lieu of such increase.

NOTE 11 – RETIREMENT SAVINGS PLANS

The Company has a pre-tax salary reduction/profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code, which covers employees meeting certain eligibility requirements. In fiscal 2017, and again in 2018, the Company matched 100%, of the employee’s contribution up to 4.0% of their earnings. The employer contribution was \$51,647 and \$29,952 in 2018 and 2017, respectively. There were no discretionary contributions to the plan in 2018 and 2017.

NOTE 12 – CORRECTION OF IMMATERIAL MISSTATEMENT TO PRIOR PERIOD FINANCIAL STATEMENTS

During fiscal 2018, the Company identified certain warrants issued in 2016 and 2017, which were incorrectly recognized as expense in 2017 when the warrants vested. As a result, investors stock compensation expense and additional paid-in capital were overstated by \$2,150,097 for the year ended December 31, 2017.

Also during fiscal 2018, the Company identified that employee stock compensation expense was incorrectly recognized in 2017. As a result, employee stock compensation expenses and additional paid-in capital were understated by \$406,522 for the year ended December 31, 2017.

Lastly during fiscal 2018, the Company identified that certain nonqualified stock options were excluded from the Company's tax provision calculation in 2017. As a result, deferred tax assets and the valuation allowance on these assets were understated by \$767,000 as of December 31, 2017.

Based on an analysis of Accounting Standards Codification ("ASC") 250 – "Accounting Changes and Error Corrections" (ASC 250"), Staff Accounting Bulletin 99 – "Materiality" ("SAB 99") and Staff Accounting Bulletin 108 – Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"), the Company determined that these costs were immaterial to the previously-issued financial statements. The Company analyzed and considered all relevant quantitative and qualitative factors and determined that the prior fiscal year financial statements should be corrected, even though such revision previously was and continues to be immaterial to the prior year financial statements. Management also determined that such correction to prior fiscal year financial statement for immaterial misstatements would not require previously filed reports to be amended and that such corrections may be made the next time the Company files the prior year financial statements.

Accordingly, the Company restated its presentation of general and administrative, sales and marketing, and operating expenses as well as retained earnings and additional paid-in capital in the consolidated financial statements for the year ended December 31, 2018 to reflect such corrections as if they had been recorded in the appropriate fiscal period as of December 31, 2017. Specifically, the adjustments were reflected and corrected in the last quarter of 2017 for the period ended December 31, 2017, by reducing investors stock compensation expense under general and administrative expenses and reducing additional paid-in capital by \$2,150,097; and, by increasing employee stock compensation expenses under general and administrative, selling and operating expense and increasing additional paid-in capital by a total of \$406,522 on the comparative balance sheet for the period ended December 31, 2017. In addition, the Company restated Note 4 – Stockholders' Equity (Deficit), Stock Options and Warrants, and Note 8 – Income Taxes, to reflect the impact of these restatements on the footnote disclosures as of and for the year ended December 31, 2017.

NOTE 13 – SUBSEQUENT EVENTS

Registered Offering of Common Stock and Warrants

On February 27, 2019, Precision Therapeutics Inc., entered into a Placement Agency Agreement (the “Placement Agency Agreement”) pursuant to which Dawson James Securities, Inc. served as placement agent on a “best efforts” basis (the “Placement Agent”) for a registered direct offering in which the Company sold 1,385,000 shares of the Company’s common stock (“Common Stock”) and warrants to purchase up to 692,500 shares of Common Stock (the “Warrants”) (the “Offering”). The Common Stock and warrants were sold in units (the “Units”), with each Unit consisting of one share of Common Stock and a warrant to purchase 0.5 of a share of the Company’s Common Stock at an exercise price of \$1.00 per whole share. The warrants are exercisable at any time on or after the date of issuance and expire on the fifth anniversary of issuance.

The Units were sold at a price of \$0.90 per Unit, resulting in gross proceeds to the Company of approximately \$1.25 million, before deducting placement agent fees and estimated offering expenses. The net offering proceeds to the Company, after deducting the placement agent’s fees and other estimated offering expenses payable by the Company, are expected to be approximately \$1.08 million.

The closing of the Offering occurred on March 1, 2019.

Pursuant to the Placement Agency Agreement, the Company agreed to pay the Placement Agent a cash fee equal to 8% of the aggregate purchase price of the Units sold. The Company also agreed to reimburse the Placement Agent for its expenses in connection with this offering, up to \$30,000, and agreed to reimburse the placement agent for its reasonable “blue sky” fees and expenses, of \$5,000. The Placement Agency Agreement contains indemnification, representations, warranties, conditions precedent to closing and other provisions customary for transactions of this nature.

Also pursuant to the Placement Agency Agreement, the Company, in connection with the offering, entered into Unit Purchase Option agreements, dated as of March 1, 2019 (the “Unit Purchase Options”), pursuant to which the Company granted the Placement Agent or its assignees the right to purchase from the Company up to an aggregate of 69,250 Units (which represents 5% of the Units sold to investors in the offering) at an exercise price equal to 125% of the public offering price of the Units in the offering, or \$1.125 per Unit. The Unit Purchase Options shall expire on February 27, 2024.

On March 12, 2019, Peak One, one of the noteholders from the bridge loan, converted 71,046 shares of stock reducing the principal of the loan by \$44,475. The value was computed, pursuant to the agreement, by calculating the average VWAP for the prior 20 days and multiplying that average by 70%.

Dr. Carl Schwartz, the Company’s CEO made an additional loan to the Company and made a private investment in the Company’s common stock, which in total, generated an additional \$1,300,000, see Note 10 – Related party Transactions.

The Company entered into a forbearance agreement with L2 Capital, LLC and Peak One Opportunity Fund, LP. AS part of the agreement the Company added 15% to the principal of the note and issued inducement shares of common stock. The Company accrued approximately \$503,000 in penalty expenses as a result as of December 31, 2018. This penalty expense is recorded in accrued expenses on the balance sheet.

On March 26, 2019, Precision Therapeutics Inc., entered into a Placement Agency Agreement (the “Placement Agency Agreement”) pursuant to which Dawson James Securities, Inc. served as placement agent on a “best efforts” basis (the “Placement Agent”) for a registered direct offering in which the Company sold 1,478,750 shares of the Company’s common stock (“Common Stock”) and warrants to purchase up to 739,375 shares of Common Stock (the “Warrants”) (the “Offering”). The Common Stock and warrants were sold in units (the “Units”), with each Unit consisting of one share of Common Stock and a warrant to purchase 0.5 of a share of the Company’s Common Stock at an exercise price of \$1.00 per whole share. The warrants are exercisable at any time on or after the date of issuance and expire on the fifth anniversary of issuance.

The Units were sold at a price of \$0.80 per Unit, resulting in gross proceeds to the Company of approximately \$1.18 million, before deducting placement agent fees and estimated offering expenses. The net offering proceeds to the Company, after deducting the placement agent's fees and other estimated offering expenses payable by the Company, are expected to be approximately \$1.05 million.

The closing of the Offering occurred on March 29, 2019.

Pursuant to the Placement Agency Agreement, the Company agreed to pay the Placement Agent a cash fee equal to 8% of the aggregate purchase price of the Units sold. The Company also agreed to reimburse the Placement Agent for its expenses in connection with this offering, up to \$30,000, and agreed to reimburse the placement agent for its reasonable "blue sky" fees and expenses, of \$5,000. The Placement Agency Agreement contains indemnification, representations, warranties, conditions precedent to closing and other provisions customary for transactions of this nature.

Also pursuant to the Placement Agency Agreement, the Company, in connection with the offering, entered into Unit Purchase Option agreements, dated as of March 29, 2019 (the "Unit Purchase Options"), pursuant to which the Company granted the Placement Agent or its assignees the right to purchase from the Company up to an aggregate of 73,938 Units (which represents 5% of the Units sold to investors in the offering) at an exercise price equal to 125% of the public offering price of the Units in the offering, or \$1.00 per Unit. The Unit Purchase Options shall expire on March 29, 2024.

The securities in the Offerings were offered and sold pursuant to the Company's "shelf" registration statement (File No. 333-213766), which was declared effective by the United States Securities and Exchange Commission on October 4, 2016.



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our report dated April 2, 2018, except for Note 12 as to which the date is April 1, 2019, which expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's ability to continue as a going concern for the year ended December 31, 2017, appearing in this Amendment No. 1 to Annual Report on Form 10-K/A of Skyline Medical, Inc. for the year ended December 31, 2018.

Registration Statement on Form S-8 Nos. 333-169556 relating to the 2008 Equity Incentive Plan, as amended; 333-175565 relating to 2008 Equity Incentive Plan, as amended; 333-186464 relating to the 2012 Stock Incentive Plan; 333-188510 relating to the Amended and Restated 2012 Stock Incentive Plan; 333-198378 relating to the Amended and Restated 2012 Stock Incentive Plan; 333- 213742 related to the Amended and Restated 2012 Stock Incentive Plan, and 333-216711 related to inducement option.

Registration Statement on Form S-3 Nos. 333-213766, 333-221966, 333-228908, and 333-229664.

Olsen Thielen & Co., Ltd.

A handwritten signature in black ink that reads "Olsen Thielen & Co., Ltd." in a cursive script.

Roseville, Minnesota
April 2, 2019

CERTIFICATION

I, Carl Schwartz, certify that:

1. I have reviewed this Amendment No. 1 to annual report on Form 10-K/A of Precision Therapeutics Inc.;
2. Based on my knowledge, this Amendment No. 1 does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this Amendment No. 1, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 2, 2019

/s/ Carl Schwartz
Carl Schwartz
Chief Executive Officer (Principal Executive
Officer)

CERTIFICATION

I, Bob Myers, certify that:

1. I have reviewed this Amendment No. 1 to annual report on Form 10-K/A of Precision Therapeutics Inc.;
2. Based on my knowledge, this Amendment No. 1 does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this Amendment No. 1, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 2, 2019

/s/ Bob Myers
Bob Myers
Chief Financial Officer (Principal Financial Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with Amendment No. 1 to Annual Report on Form 10-K/A of Precision Therapeutics Inc. (the "Company") for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Amendment"), I, Carl Schwartz, Chief Executive Officer, and I, Bob Myers, Chief Financial Officer, of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, that to our knowledge:

- (1) The Amendment fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) The information contained in the Amendment fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 2, 2019

/s/ Carl Schwartz

Carl Schwartz
Chief Executive Officer
(Principal Executive Officer)

/s/ Bob Myers

Bob Myers
Chief Financial Officer
(Principal Financial Officer)

